

The Impact of Compensation, Performance Evaluation and Promotion Practices on Employees' Job performance – A study on Insurance Companies in Batticaloa District

Evangeline. SJ and Thavakumar. D

Department of Management, Faculty of Commerce and Management,
Eastern University, Sri Lanka
jessievan.selva@gmail.com, dila1981@gmail.com

Abstract

This study investigated the impact of three HRM practices namely compensation, performance evaluation and promotion practices on Job performance of employees in Insurance companies in Batticaloa District. To attain the objectives, the quantitative method was used and data were collected through self – administrative questionnaires. A total of 210 questionnaires were distributed to the all employees who are in marketing and distribution level in insurance companies in Batticaloa District. Only 202 questionnaires were received and used for further analysis. The data were analyzed using Pearson correlation and multiple regression analysis. Three hypotheses were formulated with respect to previously discussed variables. Result indicated that compensation and performance evaluation practices were significantly and positively associated with Job performance whereas promotion practices were found to be insignificantly associated with Employee Job performance in insurance companies in Batticaloa District.

Keywords: Compensation, Performance Evaluation, Promotion practices, Employees' Job performance.

Introduction

Job performance is one of the most important dependent variables and has been studied for a long decade. Motowidlo (2003) stated that job performance is “the total expected value to the organization of distinct behavioral incidences that an individual carries out over a standard period of time”. Usually employees who are able to perform better will have higher priority in being hired compared to those low performers. This is because organizational effectiveness is usually based on the organizational performance which is largely depending on the performance of every single employee in the company (Pushpakumari, 2008).

Highly performing employees are needed to attain organizational goals (high level of productivity) and to keep the company in achieving competitive advantages (Sonntag and Frese, 2002). In order to achieve high yield in an organization, the organization firstly needs to discover methods that can be used to improve the employee's performance. According to Pushpakumari (2008), a great effort is necessary for the employees to attain high performance in jobs. When the employees are satisfied with their jobs, they tend to be

motivated, are willing to put more effort and commit more in their jobs. This then leads to the attainment of the organization's goals.

Providing and maintaining necessary balance of human resource for smooth operations of organization is a primary function of Human Resource Management. Now Human Resource work is not only concerned with traditional activities of recruitment and selection, training and development but its scope has been widened to many new and distinguished areas. Previously it was considered that allocating resources to HR activities like training and development, organization development and human resource devolvement is a major expense but now people call it as an investment. One of the common emerging beliefs is that "employees are capital" and are considered most valuable assets.

Sound Human Resource Management expects job performance in the work place to succeed in each and every perspective of Organizational performance. Job performance of employees is an important issue for any organization and refers to whether an employee does his job well or not. Job performance consists of behaviors that employees do in their jobs that are relevant to the goals of the organization. In simple words, proper HRM practices play an important role towards the successfulness of an organization, particularly in achieving higher level of employee's job performance.

These days insurance sector being at competitive state and employee is very much important for longer sustainability. This study arises from the need to manage the human resources of the insurance companies more effectively. Having a sound job performance in a workforce is important because it helps these companies to obtain benefits of sustainability, productivity and efficiency. Therefore, this research intends to conducting a job performance survey is to find out the factors that impact on that actually drive employees to perform their best.

Problem Statement and Objective of the Study

An organization will not function without the contribution from the employees as the employees could lead the organization to a better position in the highly competitive market nowadays. Thus, it is reasonable to explain why employees are viewed as one of the important assets to an organization (Daft and Marcic, 2011). Since employees are so vital to an organization, it is important to understand how the HRM practices can affect their job performance which is directly linked to organization performance.

Since Asian countries replete with manpower, human resource management needs special attention and care in relevant to gain job performance within the Organizations. And also, the growing concern for insurance and social security in Sri Lanka is overwhelming the demands for insurance products. Very limited research work has been done in Sri Lanka with respect to Human Resource practices. Although actions have been taken to point out and address the issues concerning, Nature of HRM practices and their implementation and utilization in organizations in Sri Lanka are yet to be standardized. Particularly there is no study which has explored the impact of compensation, performance evaluation and promotion practices on this scenario. Thus, there is a clear empirical gap exist with respect of the issue discussed with in the context insurance sector.

Therefore, this study is an attempt to explore the influence of three Human resource practices namely compensation, performance evaluation and promotion practice on job performance. Thus, in this context, this research intends to address the research problem of "Whether the Compensation, Performance Evaluation and Promotion practices impact on Employees' Job performance in Insurance Companies in Batticaloa District?"

Research Questions

- What is the degree of employee job performances in Insurance Companies in Batticaloa District?
- What is the influencing level of HRM practices in Insurance Companies in Batticaloa District?
- What is the relationship between factors/dimension and employees' job performance in Insurance Companies in Batticaloa District?

Research Objectives

- To examine the degree of Job performance of employees in Insurance Companies in Batticaloa District
- To determine the influencing level of HRM practices on employees' Job performance in Insurance Companies in Batticaloa District.
- To find out the relationship between factors/dimensions and job performance in Insurance Companies in Batticaloa District.

Conceptual Framework

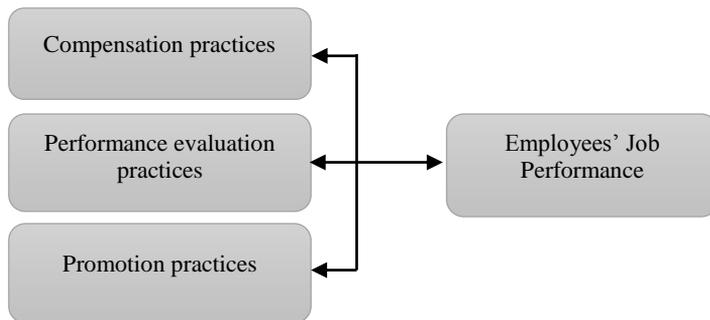


Figure 1. Influencing factors on Employee Performance

Literature Review

Employee Job Performance

In simple words, employee job performance is defined as the employees' proficiency (use of technical skill and knowledge) in generating products or services or outcomes that directly or indirectly contribute to the technical core of the company. It is also the issue of employees' effectiveness in performing duties that are formally under their responsibility and contribute to the organization's technical core (Cook, 2008).

Compensation

Compensation is output and the benefit that employee receive in the form of pay, wages and also same rewards like monetary exchange for the employee's to increases the

Performance (Holt,1993). Providing respectable compensation to persons working in organization have soothing effect on both employee and organizational performance.

Compensation is the segment of transition between the employee and the owner that the outcomes employee contract. As the prospective of employee pay is the necessary of life. Compensation is mostly equal to half of cash flow of the companies. But in the service sector it is more than half. It is the major to attract the employee and motivate employee to increases the performance (Ivanceikh and Glueck, 1989).

It is argument that a mostly individual who gets higher education are not satisfied with their jobs and their turnover is more. Hence, the organizations overcome the problem by designing the proper compensation plan to retain the employees as well to attract, retain and motivate the man power. Mostly employees believe their abilities that know that if they perform well, pay can be increasing. In other words it can be said that compensation and rewards effects the employee decision making to stay their organizations and also accepted the responsibility.

Performance Evaluation

Organizations as in general needs to obtain an ongoing assessment process of working towards achieving its set of goals and thus targets can't be achieved only and unless it has a lessons from previous experience learnt, or previous gaps of planning procedures that was not accomplished its missions particularly in employee's performance.

Dressler (2013) define performance evaluation as "comparing the employee's present and past performance to his/her performance standards". According to Grubb (2007) performance appraisal is a procedure to evaluate how individual personnel are performing and how they can improve their performance and contribute to overall organizational performance. Armstrong (2001) stated that performance as behavior – the way in which organization's teams and individuals get work done. Locke, E.A (1976) suggested that performance is not only related to results but it also relates with activities and behaviors of employees that they adopted to achieve their given goals.

Performance evaluation and promotion practices are normally based on standard criteria, procedures, and policies and performed by qualified and experienced persons of organization. Employee belief and perception about the fairness of such practices matters a lot. For conducting performance evaluation employees must know what is expected from them and what they can do further. Therefore performance evaluation is important to manage employee's work effectively.

Promotion

Some employees like equality at work, some like benefits provided by their job, or others satisfied with the degree to which they have power to take initiatives at their workplace during the job. In this research we will study the effect or influence of promotion upon employee's job Performance. Promotion is the recognition of employee efforts and his commitment to work. Getting higher and higher promotion is the ultimate desire of each person working in any sort of organization.

"Promotion is a Shifting of employee for a job of higher significance and higher compensation Lazear, Edward (2000)". "The movement of an employee upward in the hierarchy of the organization, typically that leads to enhancement of responsibility and rank and an improved compensation package is a promotion Lazear, Edward (1986)."

A significant feature of career of an employee is promotion that affects other aspects of experience of work. Furthermore, many researchers such as McCausland, W., Pouliakas, K. and Theodossiou, I. (2005) give their opinion that job satisfaction is strongly

correlated with promotion opportunities and there is a direct and positive association between promotional opportunities and job performance.

Methodology

This Research applied quantitative methodology for this study. 210 employees were selected using the random sampling technique from selected Insurance Companies in Batticaloa District and their responses were obtained through self-administrated questionnaire. A total of 202 responses were received, for a response rate of 96%. Five were eliminated because of incomplete information and three weren't received. All responses were anonymous. Data were analyzed using the software SPSS version 19.0. The data analysis included the Univariate (descriptive), Bivariate, and Multivariate analyses. The bivariate analysis included the simple correlation and simple regression analyses. As a multivariate analysis, the multiple regression analyses were carried out.

Method of Data Analysis and Evaluation

Univariate analysis

Univariate analysis is carried out for evaluating the attributes of dimensions and variables individually based on the response in the questionnaires. For this purpose, mean values and standard deviation of the dimensions and variables are taken into consideration. Therefore, this study initially evaluates individual characteristics of dimensions and variables. Assessing the levels of dimensions and variables individually is the secondary objective of this study with the following criteria.

Table 1: Decision Criteria for Univariate Analysis

Range	Decision attributes
$1 \leq X_i \leq 2.5$	Low level
$2.5 < X_i \leq 3.5$	Moderate level
$3.5 < X_i \leq 5.0$	High level

Where X_i = mean value of a dimension/variable, σ = standard deviation, Z = value of the 95% confidence limit and σ_x = standard error of the mean

Bivariate analysis

Multiple regression analysis was applied as the study considered more than one dimension.

Table 2. Decision Criteria for Correlation Analysis

Range	Decision attributes (Influences)
$r = 0.1$ to 0.29 or $r = -0.10$ to -0.29	Low level
$r = 0.3$ to 0.49 or $r = -0.3$ to -0.49	Medium level
$r = 0.5$ to 1.00 or $r = -0.5$ to -1.0	High level

Findings and Discussion

Table 3. Reliability

	Cronbach's Alpha
Compensation Practices	0.84
Promotion Practices	0.79
Performance Evaluation Practices	0.73
Employee Performance	0.74

Table 4. Overall Measures of Dependent Variable EE and Its Dimensions

Description	Dimensions			Dependent
	Compensation	Performance	Promotion	Job
Mean	3.63	3.22	2.29	3.04
Standard deviation	0.257	0.492	0.602	0.826
Influencing level	High	Moderate	Low	Moderate

The results of descriptive analysis indicated that the Employee Job Performance in Insurance Companies, Batticaloa is Moderate (mean value 3.04 with standard deviation 0.826). And in the case of Influential variable, Compensation practices in Insurance Companies is in high level (mean value 3.63 with standard deviation 0.257); the Performance evaluation practices is moderate level (mean value 3.22 with standard deviation 0.492); and Promotion practices is Low level (mean value 2.29 with standard deviation 0.602).

According to the findings, the Compensation practices; Performance evaluation practices influences respectively on the job performance highly and moderately and have significant impact in deciding the Job performance in their work. On the other hand the Promotion practice is insignificant and has low level influence in deciding Job performance.

Hypothesis

After literature review analysis some hypotheses are formulated for the study which are as under.

H1: Compensation practices are positively and significantly associated with the performance of public and private sector employees.

H2: Performance evaluation practices are positively and significantly associated with the performance of public and private sector employees.

H3: Promotion practices are positively and significantly associated with the performance of public and private sector employees.

Table 5: Summarized Regression of Variables on employees job performance

Model	Standardized	Sig.
	Coefficients	
	Beta	
(Constant)		0.002
Compensation Practices	0.173	0.004
Performance Evaluation Practices	0.226	0.001
Promotion Practices	0.05	0.125

a. Dependent variable : Job Performance

H1: It can be deduced from the table 5 that the value of beta for compensation practices is (.173) significant at .004 level. It shows that that compensation practices are positively and significantly associated with employee performance of public sector organizations. Findings are supported by the studies done by Shezad et al. (2008). The basic objective of any public organization is that to compensate employees in every possible way. In fact public organizations are launched to create jobs. Sri Lanka is a country where people come to work to fulfill basic needs not due to their interest. People having degree or expertise in one field and may be working in other field due to different reasons. Therefore compensation is the major entity which affects employee performance.

H2: Table 5 shows that the value of beta for performance evaluation practices is (.227) and significant at .001 level. Findings are supported by Baloch et al (2010). People work for satisfying their needs but also desire that their efforts must be recognized and weighted properly.

H3: The value of beta for promotion practices is (.051) insignificant at .284 level as indicated by the table 5. These findings are not supported by Shezad et.al (2008) and Baloch et al (2010). Public sector organizations have formal procedure for promotion practices but certainly followed. Rules, criteria and policies are overlooked. Moreover most appointments and promotions are done politically. Not believing on promotion decisions and procedures means employees are not committed to their work and may quit anytime if they get better Opportunity.

Table 6. Model Summary of Influencing factors of Employee Performance

Model	Adjusted R ²	Change Statistics
		Sig. F Change
1	.481	0.000

a. Predictors: (Constant), involvement and participation, recognition and rewards, Internal communication, Work - life Balance

Based on the output of the Table 6, the value of adjusted R Square is 0.481. This value is adjusted based on the number of independent variables in the model. Hence, 48% of Employee Performance has been influenced by the factors discussed in the research.

Conclusion and Recommendations

Compensation is very important for the performance of the employees. Therefore they are very important for the organization too. Based on the founded result of Insurance Companies, the high compensation result to employee high job performance and has a significant relationship on job performance among the insurance employees. Compensation doesn't only mean salary but there may be different ways to compensate employees. So, this says that the value employee training as a compensation and benefits packages has increases the performance human resource outcomes normally increases the performance, satisfaction and productivity also stay there and attracting in the taken study area of Insurance companies.

Performance evaluation practices helps to recognize the level of performance performed by employees. Performance evaluation should be devised in such a format that it must have all the elements and aspects. According to the finding Performance evaluation is significant in deciding the job performance of human resource of Insurance companies. These activities must be done in systematic and synchronized way. If Performance evaluation system is successfully used in the insurance companies of Batticaloa, the employees would be able to know how well they are performing and what is expected to them in future in terms of their work performance and effort. For instance in researches done by Lillian and Mathooko, the relation between Performance evaluation and employee's performance has been confirmed too. Top management of Insurance companies should seek to enhance the employee's motivation so that they become satisfied toward the appraisal system.

Promotion practices were found to be insignificantly associated with employee performance of Insurance companies. There are certain reasons for it. Mostly promotions are done without following any criteria and merit. Promotional activities are unclear and vague. Results of such type of activities are often kept hidden.

It is in better interest of Sri Lanka that these three HRM practices must be applied in every section. Employee performance is directly proportional to organizational performance which in turn leads to economic growth. Secondly it's an ethical and legal duty of employers to compensate employees maximally, to practically evaluate performance and promote the suitable and deserving candidates.

References

- Armstrong, M. 2001. *A handbook of human resource management park t i cue*. 8th ed. London: Kogan Page Lazear, Edward P. 2000. "Performance Pay and Productivity." *American Economic Review* 90:1346 – 61.
- Baloch, Nazim Ali, Tahir Sultan Kiani, Anjum Ahsan, Awais Mufty .Relationship between HR Practices and Perceived Employees' Performance of Bankers in NWFP, Pakistan (An Empirical Evidence). *European Journal of Social Sciences* –Volume 18, Number 2 (2010).
- Cook, A.L., 2008. Job satisfaction and job performance: Is the relationship spurious? M.A. Thesis, A&M University, Texas
- Daft, R.L. and D. Marcic, 2011. *Understanding Management*. 7th Edn., South-Western Cengage Learning, USA Dessler, A.E., Cloud variations and the Earth's energy budget, *Geophys. Res. Lett.*, 38,
- Dessler, G., 2013. *Human Resource Management*. 13th Edn., Pearson Prentice Hall, New Jersey
- Grubb, T. (2007). "Performance Appraisal Reappraised: It's Not All Positive." *Journal of Human Resource Education* Vol. 1, (No. 1.): 1-22.
- Hair, J.F. Jr., Anderson, R.E., Tatham, R.L. and Black, W.C. (1998), *Multivariate Analysis*, 5th ed., Prentice-Hall, New Jersey, NJ.
- Holt, Davis H. (1993). *Management: Concept and Practices*. New Jersey: Prentice Hall, Englewood Cliffs.

- Ivancevich, John M. William F. Glueck. (1989). *Foundations of Personnel/Human Management*. 21397-409.
- Khurram Shezad, Sajid Bashir, Muhamad I Rammay. International Review of Business Lazear, Edward P. 1986. "Salaries and Piece Rates." *Journal of Business* 59: 405-31.
- Lazear, Edward P. "Salaries and Piece Rates." *Journal of Business*, July 1986, 59(3), pp.405-3 1.
- Lillian, G.O., P. Mathooko and N. Sitati, 2011. The Effects of Performance Appraisal System on Civil Servants. Kabarak University First International Conference, (pp: 1-17).
- Locke, E.A., 1976. The Nature and Causes of Job Satisfaction. In: Dunnette, M.D. (Ed.), *Handbook of Industrial and Organizational Psychology*. Rand McNally, Chicago, pp: 1297-1349.
- McCausland, W., Pouliakas, K. and Theodossiou, I. 2005. "Some Are Punished and Some Are Rewarded: A Study of the Impact of Performance Pay on Job Satisfaction." *International Journal of Manpower* 26: 636 – 59.
- Meysam Fakharyan, Mohammad Reza Jalilvand, Behrooz Dini, Ebrahim Dehafarin, (2012), The Effect of Performance Appraisal Satisfaction on Employee's Outputs Implying on the Moderating Role of Motivation in Workplace, *International, Journal of Business and Management Tomorrow* Vol. 2 No. 4 , pp.1-9
- Mooney, J.G. (1993), "On Theorising the 'Impact' of Information Technology on Organisational Structure: Prescriptive versus Descriptive Roles," *Proceedings of the 11th Colloquium of the European Group for Organisation Studies - Workshop on Invention and Diffusion of New Organisational Forms*, 210-235.
- Motowidlo, S.J., 2003. Job Performance. In: Borman, W.C., D.R. Ilgen and R.J. Klimoski (Eds.), *Handbook of Psychology: Industrial and Organizational Psychology*. John Wiley, New York, pp: 39-53.
- Pushpakumari, M.D., 2008. The Impact of Job Satisfaction on Job Performance: An Empirical Analysis.89-105. Retrieved from: 202.11.2.113/SEBM/ronso/no9_1/08_PUSHPAKUMARI.pdf.
- Research Papers, Vol.4 No.2 March 2008 PP 302-315.
- Shahzad K, Bashir S, Ramay MI (2008). Impact of HR practices on the perceived performance of university teachers in Pakistan, *Int. Rev. Bus. Res. Papers*, 4(2): 302-315.
- Sonnentag, S. and M. Frese, 2002. Performance Concepts and Performance Theory. In: Sonnentag, . (Ed.), *Psychological Management of Individual Performance*. John Wiley and Sons